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Tenth and final progress report on the adoption of the International Public Sector Accounting Standards by the United Nations

Report of the Secretary-General

Summary

The tenth progress report of the Secretary-General on the adoption of the International Public Sector Accounting Standards (IPSAS) is the final report summarizing the progress made and challenges experienced during the institutionalization of IPSAS compliance at the United Nations and throughout the United Nations system. The report discusses progress at the United Nations with respect to each of the five pillars of IPSAS sustainability and describes the outlook for continuing sustainability.

All 24 organizations of the United Nations system have successfully completed their implementation of IPSAS and continue to receive unqualified audit opinions. Those results attest to the capability of the United Nations system to have achieved sustained compliance with IPSAS to date, with IPSAS continuously evolving in order to improve the quality of financial reporting, thereby enhancing transparency and accountability.

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I. Introduction

1. In 2006, by its resolution 60/283, the General Assembly approved the adoption of the International Public Sector Accounting Standards (IPSAS) for presentation of the financial statements of the United Nations. Since 2008, the Secretary-General has submitted annual reports (A/62/806, A/64/355, A/65/308, A/66/379, A/67/344, A/68/351, A/69/367, A/70/329 and A/71/226) on the adoption of IPSAS to the General Assembly.

2. The present report, being the final one, summarizes the progress made and challenges experienced during the institutionalization of IPSAS and the related sustainability activities carried out at the United Nations and throughout the United Nations system during the period from 1 September 2016 to 31 August 2017.

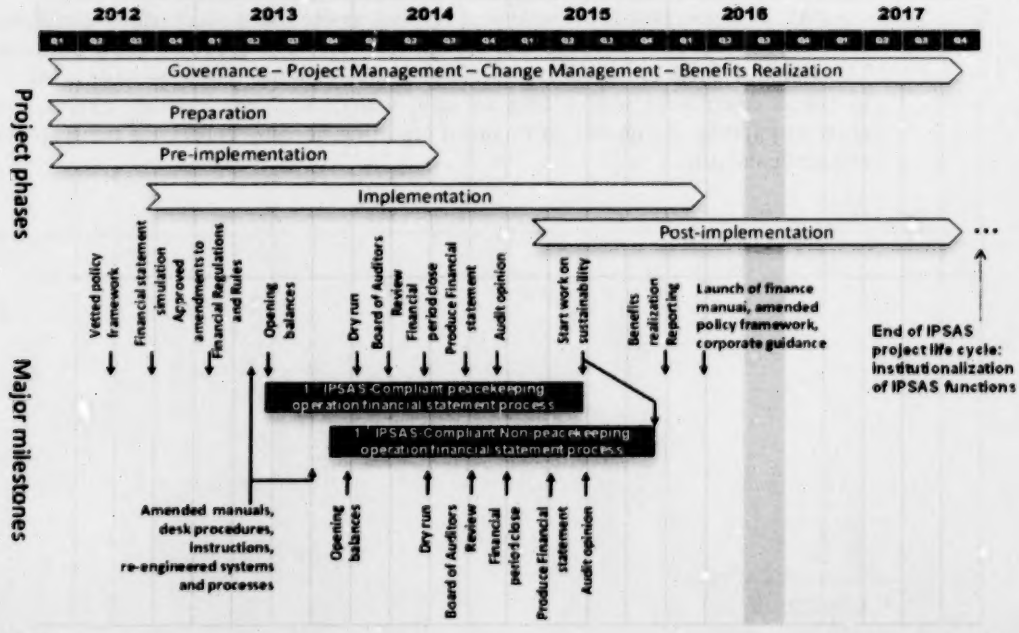
3. The report provides an update on the ongoing activities identified as central to the long-term sustainability of IPSAS compliance. Progress made at the United Nations in that regard is described in section II, followed by system-wide progress in section III, outlook in section IV and action to be taken by the General Assembly in section V.

II. Sustaining compliance with the International Public Sector Accounting Standards at the United Nations

A. Overview

4. As shown in the figure below, the United Nations IPSAS project is now in its final stage: the post-implementation and sustainability phase. As outlined in the IPSAS sustainability plan approved by the IPSAS Steering Committee and endorsed by the Management Committee in 2015, the project will come to an end on 31 December 2017.

Project phases and major milestones



B. Governance and project oversight

5. The IPSAS Steering Committee has met on a half-yearly basis and will continue to do so until the end of the project to review progress and manage risks.

6. In August 2015, the Committee updated its terms of reference to focus on delivering sustainability, moving from legacy systems to Umoja as the book of record for financial statements, securing the long-term sustainability of IPSAS compliance, analysing financial information and training needs, addressing how to raise the level of financial management knowledge across the United Nations and working with the IPSAS Board, the Board of Auditors and internal stakeholders.

7. The Committee has maintained strong oversight of the successful implementation of the IPSAS sustainability plan and, with the project in its final stage, will be winding up at the end of 2017. The Committee's project assurance role has been vital in supporting the financial statement preparation process and in monitoring the progress of work related to the deliverables under all work streams.

8. The Independent Audit Advisory Committee will continue to advise the General Assembly in fulfilling its oversight responsibilities with respect to IPSAS-related matters until the end of the project's life cycle.

C. Risk management

Previously identified risk

9. As reported in the ninth progress report of the Secretary-General (see A/71/226, paras. 11-15), three risks remained for the IPSAS project. The first risk identified was the insufficient knowledge and documented processes in the area of property management, which had an impact on asset accounting. This risk was addressed through the holding of training workshops in multiple locations, which saw the participation of more than 150 staff members from 35 duty stations.

10. The second risk, the transition from multiple legacy systems to Umoja, was addressed with the exception of one element: the migration of data from Galileo to Umoja, which is on track to be completed by 1 September 2017. The IPSAS project team is actively involved in the Galileo decommissioning project and is tracking this risk.

11. The third risk relates to the lack of, suboptimal or inaccurate use of IPSAS information for management decision-making. While it will take more time for the Organization to learn to fully utilize the rich information provided by IPSAS, the Organization has begun to use that information in decision-making. For example, IPSAS has highlighted the magnitude of existing after-service health insurance liabilities, and the Organization began to fund such liabilities related to extrabudgetary activities with effect from 1 January 2017.

Newly identified risk

12. The institutionalization of IPSAS based on five sustainability pillars, as described in the ninth progress report, depends upon the availability of sufficient resources to carry out sustainability activities.

13. Experience gained during the three financial periods that have elapsed since the preparation of the first IPSAS-compliant financial statements in 2014, and a review of the residual functions of the IPSAS team, have confirmed that the adoption of IPSAS has permanently increased the workload of the Office of Programme Planning, Budget and Accounts comprising tasks that have not

previously been performed. Furthermore, the complexity of those tasks requires a greater degree of technical expertise than usual. This in turn results in the need to strengthen existing resources and to increase capacity to meet the increased demands.

14. The complexity of the financial information presented for audit on the face of and in the notes to the financial statements has significantly increased compared with the United Nations system accounting standards, requiring more elaborate work processes and increased monitoring to ensure that controls are strengthened and remain functional in order to satisfy IPSAS requirements as well as requirements of the auditors.

15. With the introduction of IPSAS and Umoja, finance staff had to make the transition from being local process experts to being global process experts in order to support offices and missions that needed general accounting guidance or system guidance on specific transactions. It is also important to note that the IPSAS team is supporting 13 reporting entities,[1] not just Volumes I and II of the financial statements for the United Nations.

16. As stated in the ninth progress report, a number of critical activities must be mainstreamed within the Office of Programme Planning, Budget and Accounts to support the sustainability of IPSAS at the United Nations. For that reason, it is recalled that the continuation of IPSAS posts was proposed in order to maintain a core structure that will handle the portion of those critical activities previously performed by the IPSAS team that cannot be absorbed within existing resources.

17. A newly identified risk is the reduction of capacity and the loss of specialized technical skills resulting from the abolishment of IPSAS-related positions. Adequate capacity is required to carry out the following IPSAS sustainability activities:

(a) Coordinating potentially inconsistent interpretation and implementation of new IPSAS standards among the 13 reporting entities, resulting in consistent application within the Secretariat and thus ensuring the consistency and comparability of financial information, one of the key benefits of IPSAS. The lack of central support could potentially result in each entity building capacity locally with varying levels of expertise to address complex IPSAS policy decisions relating to its organization. The inconsistency among entities will be difficult to defend and will increase the risk of audit qualifications;

(b) Coping adequately with the changes needed to translate new or updated IPSAS standards into the United Nations Policy Framework for International Public Sector Accounting Standards and United Nations corporate guidance and training materials, as well as to address changes in Umoja. The lack of capacity will jeopardize the IPSAS compliance of the 13 reporting entities, which could potentially lead to adverse audit findings and audit qualifications;

(c) Implementing the statement of internal control recommended by the Board of Auditors, using a practical approach tailored to United Nations operations. The lack of adequate capacity to sustain IPSAS will have a negative impact on the statement of internal control;

[1] The United Nations produces 13 financial statements, as follows: Volume I (United Nations), Volume II (United Nations peacekeeping operations), International Trade Centre, United Nations University, United Nations Institute for Training and Research, United Nations Compensation Commission, United Nations Environment Programme, United Nations Human Settlements Programme, United Nations Office on Drugs and Crime, the Tribunals (International Residual Mechanism for Criminal Tribunals, International Criminal Tribunal for Rwanda and International Tribunal for the Former Yugoslavia) and United Nations escrow account.

(d) Supporting missions following the implementation of Umoja asset accounting, which is scheduled for 1 September 2017. It is important to note that the current capacity is insufficient to address the audit observations of the Board of Auditors and the Office of Internal Oversight Services (OIOS) on property management and accounting and simultaneously provide significant post-implementation support to missions.

D. Sustainability of IPSAS

18. As detailed in the eighth (A/70/329) and ninth progress reports, five major components have been identified as core pillars of the efforts to ensure the sustainability of IPSAS. The pillars comprise the management of IPSAS benefits; the strengthening of internal controls, leading to the issuance of a statement of internal control; the management of the IPSAS regulatory framework; the strengthening of Umoja as the backbone of IPSAS-compliant accounting and reporting; and training and skills development. Highlights of the progress made to date on each of the pillars are presented below.

1. Management of IPSAS benefits

19. The United Nations has now entered its third consecutive year of applying IPSAS as its accounting standards and, since the inception of the process, has received an unqualified audit opinion every year. That is a major achievement and a clear demonstration that the Organization is aligned with best practices, which in turn will increase the confidence of Member States and donors as to its accountability and its sound financial management practices. The IPSAS-compliant reports on the financial position and performance of the Organization are becoming a robust basis for the decision-making of governing bodies.

20. The ninth progress report outlined the positive impact of IPSAS, including in terms of the stewardship of assets and liabilities, the availability of comprehensive cost information, the consistent application of the standards and related processes of the field operations environment and the accountability of staff responsible for processes related to financial statements. The dedicated benefits reporting process in place during the previous reporting period was deemed to have achieved its purpose of confirming the existence of those benefits, and therefore the IPSAS Steering Committee decided to integrate benefits reporting with the financial statements reporting process going forward.

21. In line with the request of the General Assembly for further information about specific benefits attributable to IPSAS, the main areas identified in this regard are set out below.

Better management of property, plant and equipment

22. IPSAS requires the recognition of property, plant and equipment on the balance sheet. Under IPSAS, the Secretariat now recognizes property, plant and equipment in its financial statements, resulting in a better understanding of: owned assets and their remaining useful lives, which enables the United Nations to better plan for upcoming capital requirements; property, plant and equipment obtained through financing lease agreements; restrictions on the use of property, plant and equipment; and the estimated costs of maintaining infrastructure through an annual depreciation charge.

23. The value of in-kind contributions from Member States allowing for the use of premises free of charge is available and can be incorporated into the planning process.

Better inventory management

24. Under the United Nations system accounting standards, the United Nations did not recognize inventory (such as rations, water, fuel, spare parts and other consumables and supplies held by peacekeeping and special political missions; and publications) in the statement of financial position. Under IPSAS, the United Nations better understands the extent and the ageing of inventory held, leading to better stewardship and logistics management (for example, better assessment of, and a better action plan for, slow-moving and obsolete stocks).

25. Furthermore, as a result of the recognition of inventory under IPSAS, the United Nations conducts an annual physical verification of all stock on hand, thereby ensuring that proper controls are in place to verify the existence of inventory and the validity of the values reported in financial statements. The enhanced information generated by the improved asset management process is available for decision-making.

Enhanced awareness of existing intangible assets

26. Historically, the United Nations has not recognized assets that are intangible in nature. However, IPSAS requires that such assets be recognized in accordance with certain criteria. Upon the implementation of IPSAS, the United Nations identified several intangible items that met the criteria for recognition, including patents, copyrights, licences and various internally developed and externally acquired software products. The United Nations is now better able to track and control such assets, which have no physical form, and that in turn has helped the Organization to be better able to plan for its future requirements for them.

27. Governing bodies can now see that the net book value of intangible assets was $105 million, of which $84 million related to the Umoja system, in note 16 to the 2016 financial statements for Volume I.

Timely recognition of revenue and better management of receivables

28. As a result of the implementation of IPSAS, it became apparent that the outstanding balance of accounts receivable was significant and that a change in strategy was needed to improve the collection of these long-outstanding amounts. That information has assisted management in changing and improving its relationship with implementing partners and other parties. Another benefit includes the active monitoring of due dates for instalments of voluntary contributions and payment schedules specified in funding agreements.

29. IPSAS requires the upfront recognition of voluntary contributions under unconditional multi-year agreements, which led the United Nations to conduct a complete review of its funding agreements to identify contributions relating to future years that needed to be recognized at the inception of the agreements. Following the implementation of IPSAS, the statement of financial position fully reflects receivables under multi-year agreements, which facilitates the preparation of cash requirement forecasts and provides a comprehensive basis for better planning and enhanced decision-making with respect to project activities by programme managers and other stakeholders. For example, the amount of $466 million in voluntary contributions receivable related to multi-year arrangements was reported on the statement of financial position for Volume I as at 31 December 2016. This compares with $199 million as at 31 December 2015. The increase is due to several major multi-year contribution agreements concluded in 2016 being fully reflected and recognized upfront.

Better measurement of accounts receivable

30. The United Nations system accounting standards did not require the evaluation of ageing accounts receivable in respect of doubtful collection. Under IPSAS, the Organization must identify accounts receivable with respect to which collection is doubtful, estimate the amounts that may not be collected and record an allowance against accounts receivable to reduce the amount reported on the statement of financial position. The new practice of reviewing ageing receivables more rigorously has resulted in greater communication with donors to initiate collection action in order to improve the cash inflow to the Organization.

Disclosure of financial instruments

31. Under IPSAS, the recognition of investment assets and liabilities has changed from a settlement date basis (cash basis) to a trade date basis (accrual basis). This provides more accurate and timely information about the Organization's financial situation and operational risks.

32. Furthermore, IPSAS requires more robust disclosure regarding currency exposure, currency sensitivity and the use of derivative instruments to manage currency risk. This helps the readers of financial statements to understand the exposures and risks of various currencies and the Organization's approach to managing currency risk. A currency exposure sensitivity analysis for the euro and the Swiss franc is included in note 30 to the 2016 financial statements for Volume I, showing the effect that a strengthening or weakening of 10 per cent in those currencies would have had on net assets/surplus or deficit.

33. Since 2016, net cash pool revenue has represented exclusively revenue generated from investment activities. Formerly, bank fees and foreign exchange gains and losses from cash pools were included in investment revenue. Disaggregating those elements, as required under IPSAS, from investment revenue has helped to provide a more accurate picture of investment revenue and operating expenses and facilitated performance comparisons between periods.

Improved reporting of liabilities

34. Under the United Nations system accounting standards, the United Nations had already introduced some employee benefits obligations in the financial statements. Since the implementation of IPSAS, full-scale liabilities have been reported on the basis of the accrual concept, which has provided the Organization and its stakeholders with complete visibility and a better understanding of all its obligations. This means that future liabilities for services currently rendered are included in the financial statements. The after-service health insurance, annual leave and repatriation liabilities constituted 97 per cent of employee benefits obligations, with workers' compensation and accrued salaries and allowances constituting only the remaining 3 per cent. IPSAS has increased transparency and resulted in greater awareness of the magnitude of existing liabilities and provides better information for decision-making. A recent benefit was the decision of the Organization to begin funding the after-service health insurance liabilities related to extrabudgetary activities with effect from 1 January 2017.

Integration of a comparison of budget and actual amounts into the financial statements

35. A comparison of budget and actual expenses is included in the financial statements to fully comply with IPSAS 24: Presentation of budget information in financial statements. Such a comparison provides elements for assessing the

performance of the Organization at a high level and highlights any significant performance issues.

Conclusion of benefits realization

36. Since the first year for which it issued IPSAS-compliant financial statements, the Organization has concluded that applying an independently developed set of accounting standards based on robust due process and requiring comprehensive disclosures about transactions and operations:

(a) Allows for the comparability of financial information across organizations and for better assessment of the financial position and financial performance of the Organization;

(b) Improves the transparency and visibility of the financial aspects of the operations of the Organization for its management as well as for Member States. Major benefits in the area of asset accounting are expected to be realized following the decommissioning of Galileo.

37. IPSAS has also given rise to greater discipline in the generation, management and disclosure of information that is required not only for inclusion in the financial statements and in financial processes, but also for many processes outside the scope of Umoja, such as collection with respect to legal claims and data-cleansing related to voluntary contribution agreements. More and more information has become available to managers and staff at large to support decision-making at all levels.

2. Strengthening of internal controls

38. During the reporting period, the Organization made progress in the strengthening of internal controls, one of the five pillars of the IPSAS sustainability framework in accordance with its approach as described in the ninth progress report (see A/71/226, para. 35). The approach is based on an organization-wide assurance process supporting the issuance of a statement of internal control. That process will require annual assurance statements from all departments, offices and missions affirming that internal controls are present and functioning in their respective areas. In assessing internal controls in their operations, managers will be supported by self-assessment checklists and communication and training materials, as well as by hands-on training.

39. The internal controls pillar serves two important purposes. First, it provides an opportunity for the Organization to conduct a deliberate and conscious assessment of internal controls to inform and support better management practices and reliable reporting. Secondly, such continuous assessment will highlight gaps that will require the Organization to adjust structures, responsibilities, processes and procedures as well as flag possible training needs.

40. While preparatory work was carried out during the first half of 2017 to support the future implementation of a statement of internal control, the work on the sustainability pillar encountered a six-month delay compared with the original plans. The delay was occasioned by multiple change initiatives that could not be undertaken simultaneously, as that would have required the attention of the same parties and stakeholders.

41. The integrated internal control framework of the Committee of Sponsoring Organizations of the Treadway Commission will continue to serve as the conceptual basis of internal control for the United Nations. In that context, it should be recalled that all activities related to internal control within an organization are driven by the objectives that the organization sets for itself in that regard. For the United Nations, the Controller has defined such objectives in financial regulation 5.8 (d). It requires

that the Secretary-General maintain a system of internal controls designed to provide reasonable assurance regarding the reliability of financial reporting and assurance that the Organization's resources and assets are safeguarded in accordance with the regulatory framework, in order to meet the aims and objectives of the Organization.

42. The principles and requirements of the Committee of Sponsoring Organizations framework have been adapted to the United Nations organizational context to allow for a structured and harmonized way to assess internal controls organization-wide against the set internal control objectives. This mapping exercise was informed by the most recent and current audit findings of OIOS and the Board of Auditors. The controls will be made as operational as possible and fit for purpose during 2017, so that an assessment of the presence and functioning of internal controls can easily be undertaken by individual departments, offices and missions in the future. The self-assessment will in turn form the basis for and lead to eventual assurance statements by all offices of the Organization.

43. The value of developing a very practical and intuitive way to assess internal controls cannot be overemphasized, as it will facilitate change, increase buy-in and ultimately lead to better controls. Further consultations will involve offices away from Headquarters, regional commissions and extrabudgetary-funded entities of the Secretariat.

44. To that end, the adoption of a nimble and flexible tool is envisaged that will allow for the organization-wide and entity-level assessment of internal controls and related analysis and reporting. Efforts will be made to use and leverage existing applications, systems and functionalities so as to avoid the duplication and fragmentation of systems and applications and keep costs to a minimum.

45. The aforementioned assessment exercise also brought more clearly to light the fact that communication and training efforts will be paramount to support the roll-out of this new process and will have to be undertaken at various levels of management. In addition to senior-level engagement, hands-on training and communication and reference materials will be necessary to inform staff at large about concepts and approaches as well as key messages and issues.

46. A small and independent advisory group on internal controls that included both academic experts and practitioners was set up to provide advice on the technical aspects of the application of the conceptual framework at the United Nations.

47. The experience so far has clearly revealed that many challenges lie ahead for this project. For example, the many operational and mandate-driven demands that are placed on all entities make the cost-effectiveness and efficiency of internal controls and their definition paramount. Furthermore, the change management aspect of introducing a new process based on an international best practice framework is more challenging than initially expected, as it introduces new concepts, terminologies and processes, all of which require increased communication and training efforts to make this initiative a success.

48. In addition, senior management and structural changes that have an impact on the control environment, such as further roll-outs of Umoja, the introduction of a global service delivery model and ongoing management reform initiatives will have a more significant impact on internal controls than initially foreseen, as they could further change roles, responsibilities and organizational structures.

49. Important feedback has been received on where and how to best house within entities the expanded assurance function, which requires dedicated focus and visibility across many functional areas. In that connection, the importance of a

central function within the Office of Programme Planning, Budget and Accounts to carry out effective management assessment of internal controls cannot be overemphasized. Only ongoing monitoring, spot checks and a horizontal view of possible control issues will lead to adequate mitigating controls and a management culture that attaches importance to this area of work with a view to the fulfilment of the Organization's mandate to utilize and be accountable for the resources entrusted to it.

50. As a way forward, a series of workshops will be conducted in 2017 with peacekeeping and non-peacekeeping entities to further train participants on concepts and approaches, identify the right mix of cost controls and refine internal controls and possible required assurances. In addition, various initiatives will be used to engage senior managers, with a focus placed on control environment tasks.

51. On the basis of the aforementioned considerations, including the availability of the required resources, the estimated timelines for the implementation of a statement of internal control have shifted to the financial year 2017/18 for peacekeeping entities and the year 2018 for non-peacekeeping entities.

3. Management of the IPSAS regulatory framework

52. In order to keep the IPSAS regulatory framework up to date, a dedicated process is required to validate all new policy documents and translate them into regulatory documents. Managing the regulatory framework will include:

(a) Monitoring and participating in the development of IPSAS standards;

(b) Keeping the United Nations Policy Framework for IPSAS and corporate guidance up to date;

(c) Supporting the 13 United Nations organizations that produce a set of IPSAS-compliant financial statements;

(d) Providing conceptual training to accounting staff;

(e) Working with the offices affected to assess the degree of impact on operations. For example, the IPSAS team is currently working with the Office of Central Support Services to collect data about heritage assets.

53. The IPSAS Board continues to develop new standards as well as to change and update existing standards. Currently, the IPSAS Board is working on 12 projects, of which 6 will have an impact on the United Nations. In addition to those six projects, one project, infrastructure assets, which will have an impact on the United Nations, is expected to commence in December 2017. When these projects are completed by the IPSAS Board, the United Nations will be required to adopt the standards in the prescribed period. The major areas in which standards are being developed are as follows:

(a) Heritage items: a standard is being developed that has significant implications for financial reporting owing to the high volume of heritage assets held by the Organization. Currently, IPSAS does not require the recognition of such assets on the financial statements and note disclosure is optional. The new standard would make the recognition of such assets mandatory. In many cases, there are no comparable assets that can be used to derive a value, and consequently valuation experts would have to be hired. It is therefore critical that the United Nations participate in the development of this standard;

(b) Leases: upon the completion of this project, a new IPSAS standard will replace IPSAS 13: Leases. While all operating leases are currently expensed, the new standard will require all leases with a duration of more than a year to be

recognized as finance leases, for which assets and liabilities will be brought onto the face of the financial statements. An exposure draft (a first version of the new standard) is expected in September 2017;

(c) Revenue and non-exchange expenses: these two projects will have an impact on the voluntary contribution revenues and corresponding accounts receivable and will address when obligations and liabilities arise for donors and how liabilities should be measured. That in turn is expected to have an impact on grants and other transfers;

(d) Financial instruments: this project is aimed at updating IPSAS 29: Financial instruments: recognition and measurement and amending IPSAS 28: Financial instruments: presentation and IPSAS 30: Financial instruments: disclosures. The project will have an impact on the United Nations accounting and reporting of the cash pool and other financial assets. An exposure draft is expected after the June 2017 meeting of the IPSAS Board, with revised IPSAS standards expected by March 2018;

(e) Public sector measurement: this project is aimed at issuing amended IPSAS standards with revised requirements for measurements at initial recognition, subsequent measurement and measurement-related disclosure; providing more detailed guidance on the implementation of replacement cost; and addressing transaction costs. The project will have an impact on the measurement of United Nations assets and liabilities;

(f) Infrastructure assets: the Board is preparing to start discussions on this project, which is expected to have an impact on the United Nations.

54. IPSAS compliance by the United Nations continues to be affected by new and updated standards issued by the IPSAS Board. Therefore, dedicated resources are required to continuously monitor and participate in setting standards and translating them into the Policy Framework for IPSAS, corporate guidance and other policy documents in order to ensure sustained compliance with IPSAS.

4. Strengthening of Umoja as the backbone of IPSAS-compliant accounting and reporting

55. Umoja continues to serve as the backbone of long-term IPSAS sustainability, which requires continuous updates to the IPSAS/Umoja accounting manual, the further automation of the financial statement process, the deployment of Umoja for asset accounting at field missions, and substantial contributions to the Umoja continuous improvements work stream.

IPSAS/Umoja accounting manual

56. The IPSAS/Umoja accounting manual incorporates both IPSAS policies and Umoja processes and activities in one location so that practitioners and managers have an organization-wide repository at their disposal to assist with every aspect of their work related to financial accounting. The manual allows every user and every staff member of the United Nations to go to one location, select a topic, learn about the related IPSAS policy of the Organization and follow the corresponding step-by-step process to complete IPSAS-compliant transactions in Umoja.

57. A dedicated user-friendly website was developed to host the manual, permitting ready accessibility to the information needed. The current website also hosts important IPSAS documents, including the Policy Framework, IPSAS corporate guidance documents, and the IPSAS benefits realization plan and benefits realization booklet, as well as a link to the IPSAS handbooks.

58. A continuous and dedicated effort will be required by the IPSAS team to keep the manual updated as both IPSAS and Umoja evolve.

Automation of financial statements (business planning and consolidation)

59. Since the issuance of the ninth progress report, the business planning and consolidation subproject has been launched to automate the production of IPSAS-compliant financial statements for the Secretariat reporting entities that utilize Umoja. The financial statements for Volume II, United Nations peacekeeping operations, as at 30 June 2016 were the first to be produced under the business planning and consolidation subproject and were completed by the deadline of 30 September 2016.

60. The IPSAS-compliant financial statements for Volume I, United Nations, and the other non-peacekeeping reporting entities (the United Nations Environment Programme, the United Nations Human Settlements Programme, the United Nations Office on Drugs and Crime, the International Trade Centre, the International Tribunal for the Former Yugoslavia, the International Criminal Tribunal for Rwanda and the International Residual Mechanism for Criminal Tribunals) for the year ended 31 December 2016 were successfully produced under the business planning and consolidation subproject and were completed by the deadline of 31 March 2017. Later in 2017, financial statements for Volume II, United Nations peacekeeping operations, will be produced under the subproject for the second consecutive year.

61. The use of business planning and consolidation has resulted in a streamlined process for producing consolidated financial statements, reducing the time spent in that regard. All data and adjustments uploaded are fully documented and stored with a distinctive audit trail, providing a single, centralized view of Umoja data. As a result of increased automation in the consolidation process, resources are now directed towards more analytical work. The reduction in manual errors is an additional advantage stemming from the use of business planning and consolidation.

62. The next phase of the automation of financial statements includes disclosure and notes management, which is expected to produce harmonized note disclosures for all of the Secretariat reporting entities that utilize Umoja.

Plan to deploy Umoja for asset accounting at field missions

63. Currently, equipment and inventory assets for peacekeeping and special political missions are managed in Galileo. Galileo is used to track detailed information, including cost, depreciation and useful life.

64. In September 2017, property, plant and equipment and inventory assets for peacekeeping and special political missions will be migrated to Umoja. That deployment will eliminate the need to produce Galileo reports with equipment and inventory balances, which are manually posted in Umoja for the preparation of financial statements. The conversion of those balances will provide visibility with respect to fixed asset and inventory balances in the statement of financial position in real time, allowing for more effective monitoring. That should lead to the improved management of assets, given that detailed information will be readily and centrally available for financial, budgetary and operational purposes.

Continuous improvement of Umoja

65. Financial accounting master data in Umoja need to be maintained and changes relating to new master data supported. This includes the review and approval or rejection of requests for new general ledger accounts, namely, changes to the tables of accounts, coordination with both of the budget divisions of the Office of

Programme Planning, Budget and Accounts with respect to general ledger accounts that affect budgeting, and coordination with the Umoja team for the configuration of approved new general ledger accounts.

66. Umoja users are continuously submitting change requests that would either improve transactional efficiency or provide for better management information. Extensive tests are required to ensure that IPSAS compliance is not impeded by the proposed process changes. This will require coordination within the Umoja team and sometimes across functional areas, including procurement, logistics, service delivery, travel, human resources and treasury.

67. The continuous improvement of Umoja is critical for IPSAS sustainability, and the IPSAS team will continue to work closely with the Umoja team on further enhancements to the Umoja system to ensure the long-term sustainability of IPSAS.

5. Training and skills development

68. Training and skills development is an inherent part of all IPSAS sustainability efforts and includes specialized training, available on the Inspira training platform, on the IPSAS standards and IPSAS benefits realization awareness training. In addition, the online IPSAS/Umoja accounting manual helps staff at large to perform their functions in an IPSAS-compliant manner and keep abreast with the ongoing evolution of IPSAS standards. During the reporting period, the Organization stepped up the dissemination of plans for the introduction of a statement of internal control and an underlying assurance process.

69. The pilot programme aimed at the professionalization of finance staff made limited progress, with two candidates pursuing the Chartered Institute of Public Finance and Accountancy professional qualification, as the initiative was inhibited by budgetary constraints. On the basis of the positive feedback received from the candidates, the Organization is working to expand the pilot before embarking on a formal programme in line with its policy on learning and development. The Organization will be mindful of the availability of human and financial resources as it considers options for collaborating with other organizations of the United Nations system that have similar programmes.

70. With Umoja becoming the book of record during the reporting period, except with regard to equipment transactions, which are still recorded in Galileo, the Organization focused on the training of staff in all of the major processes handled in Umoja. The objective of the training was to enable participants to understand the end-to-end processes and integration points, to perform basic and complex transactions, including running and producing reports, and to diagnose and troubleshoot frequent user errors and raise requests through iNeed tickets. A combination of training on Umoja modules such as those on financial accounting, funds management and grants management and the involvement of staff in testing changes to the Umoja system was undertaken to ensure that staff at various levels became proficient in the use of the system.

71. The annual workshop for chief budget and finance officers of peacekeeping missions, held in Brindisi, Italy, and the workshop for chief financial officers of non-peacekeeping entities, held in Nairobi, provided in-depth training on the financial statement preparation process and the required closing activities and included an increased focus on internal control issues and on the dissemination of plans for the introduction of a statement of internal control. In addition to specific aspects of internal control training, the workshops served as ways to enable the broader change management and training effort to deepen the Organization's general understanding of internal controls. During the workshops, case studies based on United Nations scenarios were used to bring to life for participants key

risks and required controls for the financial reporting objectives of the United Nations. Each workshop had approximately 30 participants, from entities that included both peacekeeping and non-peacekeeping operations. The outputs of the workshops will be used to create a repository of knowledge on the major internal control risks faced by the Organization and the key actions required for the management of those risks.

72. Various activities aimed at the training of managers and staff at large are planned to be held with peacekeeping and non-peacekeeping entities, ranging from senior-level engagements with heads of departments, offices and missions to the training of staff at large on internal control responsibilities and requirements.

E. Project budget and expenditure as at 30 June 2017

73. The General Assembly, in its resolution 60/283, approved the resources requested for the implementation of IPSAS.

74. The table below presents a breakdown by funding source of the total expenditure for the period 2006-2017 as at 30 June 2017. The indicative budget of $27 million for the IPSAS implementation project, prior to the detailed planning of sustainability activities, comprises $12.8 million from the support account, $10 million from the regular budget and $4.2 million from extrabudgetary resources (see A/67/564, para. 17). The actual expenditure to 30 June 2017 is $26.2 million, excluding $4.2 million in cumulative expenditure under extrabudgetary funds. The estimated expenditure to 31 December 2017 is $26.8 million.

Project budget and expenditure for IPSAS adoption at the United Nations

(Thousands of United States dollars)

Object of expenditure	*Expenditure[a] 2006-2015*	*Expenditure[b] 1 January 2016-30 June 2017*	*Total actual expenditure[b] 1 January 2006-30 June 2017*	*Approved allotment 2017*	*Projected expenditure[c] 1 July 2017-31 December 2017*	*Total estimated expenditure[c] 2006-2017*
Regular budget						
Posts	5 239.1	595.1	5 834.2	455.0	277.3	6 111.5
General temporary assistance	944.2	–	944.2	2.4	2.4	946.6
Consultants	272.9	4.0	276.9	–	–	276.9
Travel	313.8	50.6	364.4	42.0	38.2	402.6
Contractual services	74.0	14.9	88.9	1.5	1.5	90.4
Other	181.9	10.4	192.3	7.2	4.5	196.8
Section 29B, Office of Programme Planning, Budget and Accounts	**7 025.9**	**675.0**	**7 700.9**	**508.1**	**323.9**	**8 024.8**
Section 31, Jointly financed activities	1 948.0	18.6	1 966.6	289.2	289.2	2 255.8
Subtotal	**8 973.9**	**693.6**	**9 667.5**	**797.3**	**613.1**	**10 280.6**
Support account for peacekeeping operations						
General temporary assistance	4 660.6	978.2	5 638.7	–	–	5 638.7
Consultants	7 906.1	1 576.3	9 482.4	–	–	9 482.4

Object of expenditure	*Expenditure[a] 2006-2015*	*Expenditure[b] 1 January 2016-30 June 2017*	*Total actual expenditure[b] 1 January 2006-30 June 2017*	*Approved allotment 2017*	*Projected expenditure[d] 1 July 2017-31 December 2017*	*Total estimated expenditure[c] 2006-2017*
Travel	1 125.8	193.8	1 319.7	–	–	1 319.7
Other	38.6	54.3	92.9	–	–	92.9
Subtotal	**13 731.1**	**2 802.6**	**16 533.7**	**–**	**–**	**16 533.7**
Total	**22 705.0**	**3 496.2**	**26 201.2**	**797.3**	**613.1**	**26 814.3**

[a] Expenditure on a budget basis.
[b] Actual expenditure to 30 June 2017 as at 20 July 2017.
[c] Cumulative estimated expenditure to 31 December 2017 does not include expenditure of $4.2 million under extrabudgetary funds incurred by regional commissions and offices away from Headquarters.
[d] Allotment for 2017, less expenditure to 30 June 2017.

III. IPSAS and the United Nations system

75. Twenty-four organizations of the United Nations system that successfully completed their implementation of IPSAS continue to receive unqualified audit opinions. Those results attest to the capability of the United Nations system to sustain compliance with IPSAS, which continues to evolve through changes made to the standards on a regular basis, in order to improve the quality of financial reporting, thereby enhancing transparency and accountability.

76. The United Nations system Task Force on Accounting Standards is currently focused on sustaining IPSAS compliance and the realization of the planned benefits of IPSAS, including greater comparability of financial reporting policies and practices across the United Nations system. Some of these post-implementation activities present challenges.

77. One of the key contributing factors with respect to sustaining IPSAS compliance is the ongoing engagement by the Task Force with the IPSAS Board, which continues to update standards and issue guidance in response to user needs and changing environments, seeking public comments before a standard is finalized. Monitoring the work of the IPSAS Board, keeping Task Force members updated on new pronouncements and upcoming projects, and providing feedback to the IPSAS Board on behalf of the United Nations system are some of the key activities of the system-wide IPSAS project team. The Board's current projects include many that could have a significant impact on the financial reporting carried out in the United Nations system, such as that on leases, heritage assets, financial instruments, exchange and non-exchange revenue and non-exchange expenses. The interpretation and implementation of IPSAS with regard to non-exchange transactions has been a particularly challenging area for the organizations of the United Nations system and has been a subject of collaboration with the IPSAS Board to ensure that the latter addresses the specificities of not-for-profit international organizations as distinguished from Governments.

78. In order to deal with the diversity of financial reporting across the United Nations system, the Task Force commissioned thematic focus groups led by member organizations with the support of the system-wide IPSAS project team. In 2016, the thematic groups reviewed and presented findings for the consideration and approval of the Task Force on: (a) the analysis of the main common arrangements of the United Nations system in accordance with IPSAS standards 34 to 38, on accounting for interests in other entities; (b) the revised useful economic lives and impairment model for property, plant and equipment; (c) the harmonization of after-service

health insurance accounting and valuation methodologies; and (d) common terminology for financial statements issued by the organizations of the United Nations system. Some of the thematic groups are continuing their activities in 2017. These efforts are important for harmonizing accounting practices and improving the comparability of financial statements.

79. In November 2016, the Finance and Budget Network endorsed the revised terms of reference of the Task Force, which had been adapted to its post-implementation focus. The changes made included revisions to ensure that the terms of reference are sufficiently broad to cover the future activities of the Task Force, to change the procedure for electing the Chair and the Vice-Chair and to remove the mandatory requirement that two meetings of the Task Force be held per year.

80. The proposed budget for the United Nations system-wide IPSAS project for 2018-2019 was endorsed by the Finance and Budget Network in March 2017 and included a staffing requirement for one P-5 post. The role of the project team includes: (a) providing support to the Task Force by facilitating its meetings and communication with high-level committees and external auditors; (b) monitoring activities of the IPSAS Board, including by attending its quarterly meetings as far as possible; (c) supporting the analysis and management of the diversity of IPSAS-compliant financial reporting; and (d) providing guidance and support in areas of special interest identified by the Task Force.

IV. Outlook

81. As at the end of 2016, the United Nations had prepared and presented IPSAS-compliant financial statements for all 13 reporting entities for three successive years, for its peacekeeping operations up to the year ended 30 June 2016 and for its non-peacekeeping operations up to the year ended 31 December 2016. All financial statements received an unqualified audit opinion. The most recently submitted financial statements for its peacekeeping operations, for the financial year ended 30 June 2017, are currently under audit.

82. This great accomplishment is a confirmation of the Organization's strong commitment and efforts aimed at IPSAS compliance and its ability to be aligned with international best practices. The United Nations has gained significant momentum in updating its practices, making more information available to management and Member States, and monitoring its performance on the basis of new information generated by IPSAS and Umoja. As this reform is an ongoing process, it can be expected that benefits realization will continue and will be significant. The full realization of benefits will require time, and the sustainability of compliance with IPSAS will require dedicated resources.

83. This positive outlook is impeded by a newly identified risk, discussed in section II.C above, which is the loss of specialized technical skills and the abolishment of IPSAS-related positions. In the light of (a) the high level of activity at the IPSAS Board and the continuing changes to the IPSAS standards requiring analysis by finance staff in terms of their impact on the worldwide operations of the United Nations, (b) the activities required to implement and sustain an assurance-based process for the strengthening of internal controls, and (c) the upcoming deployment of Umoja Extension 2, which will increase complexity and significantly increase the need for support, principally in the area of asset accounting for missions, it is apparent that the Office of Programme Planning, Budget and Accounts will not be able to absorb all key activities identified in the ninth progress report as critical to supporting IPSAS sustainability. This effectively places at risk the sustainability of IPSAS at the United Nations. That risk, which is highly

probable without adequate capacity, will increase the likelihood of failure to carry out or keep up with the activities necessary to comply with IPSAS and could potentially lead to qualified audit opinions, with its attendant negative consequences.

84. In paragraph 79 of the ninth progress report, it was indicated that a supporting structure was necessary to carry out sustainability activities in four areas to drive continued IPSAS compliance: accounting policy, Umoja coordination, asset accounting and assurance and monitoring.

85. In addition to the existing posts within the Accounts Division that have already been reprofiled to meet some of the new demands, six posts (1 P-5, 3 P-4, 1 P-3 and 1 General Service (Other level)) will be required to handle the critical activities outlined in paragraph 17 above. Three of those posts (1 P-5, 1 P-4 and 1 General Service (Other level)) had already been approved as part of the staffing complement of the Office of Programme Planning, Budget and Accounts and have been proposed for redeployment from executive direction and management to component 3, Accounting, contributions and financial reporting, in the context of the proposed programme budget for the biennium 2018-2019 so as to consolidate all IPSAS sustainability functions. The remaining three posts had been requested under the support account for the financial period 2017/18, of which only one was approved.

86. The implementation of IPSAS and the implementation of Umoja are two of the largest transformational projects undertaken successfully by the Secretariat with a number of interdependencies. The projects provide the Organization with a global view of IPSAS-compliant data, including personnel data, accounts payable, payments, resource mobilization and utilization, budget consumption and funds availability across entities and funding sources, commitments, goods receipts, contribution agreements and travel data, which will lead to more informed decisions. IPSAS compliance and the realization of IPSAS benefits depend on Umoja processes, while the design of Umoja processes and the realization of Umoja benefits depend on the establishment of clear, simple and consistent accounting policies for all Secretariat entities. The withdrawal of IPSAS resources dedicated to sustaining IPSAS over the long term is premature at this critical juncture and will result in the immediate erosion of benefits painstakingly built up over the life of the project and increase the probability of qualified audit opinions. In addition, it will impair the coordination with the Umoja team that is essential to the development of IPSAS-compliant processes, for a significant number of the Umoja Extension 2 processes that will continue to be designed, built and deployed through 2018 and 2019. Furthermore, specialized technical skills built gradually over the life of the IPSAS project will be immediately lost through the loss of staff and will not be easy to replace, as such skills are not readily available internally or externally.

87. The costs of implementing IPSAS and sustaining compliance have been shared by the regular budget as well as the budgets that fund peacekeeping operations, the largest beneficiaries of IPSAS. The standardized categorization of property, plant and equipment and inventory, and the integration of purchases with inventory and assets, enforce accountability for these assets, which benefits not only peacekeeping operations, but also special political missions, regional commissions, Headquarters and offices away from Headquarters. Given that recent reports of the Board of Auditors point to major deficiencies in asset management and asset accounting, the benefits of consistent and improved asset accounting and accountability far outweigh the investment in the posts requested under the support account and the programme budget. Without capacity to sustain IPSAS, the statement of internal control project referred to in section II.D.2 above, a significant endeavour, will be seriously jeopardized and likely postponed or scaled back, and the Administration will need to devolve support functions that are currently centralized to peacekeeping

missions and, in parallel, create the capacity in the missions to undertake such responsibilities. That will require peacekeeping missions to take on additional responsibilities and accountability.

88. Any further cuts in existing IPSAS posts will impose a serious burden on the Organization, and the consequences outlined above must be considered in their totality. The very real risk of qualified audit opinions as a result of the inability to carry out or keep up with the activities necessary to comply with IPSAS due to the non-approval of the requested resources cannot be overemphasized.

V. Action to be taken by the General Assembly

89. The General Assembly is requested to take note of the present and final report on the adoption of IPSAS, including the plan to support continued IPSAS compliance, as well as the challenges thereof.